Journal of Economics, Finance and Management Studies

ISSN (print): 2644-0490, ISSN (online): 2644-0504

Volume 09 Issue 02 February 2026

Article DOI: 10.47191/jefms/v9-i2-06, Impact Factor: 8.317

Page No: 601-616

An Analytical Desk Review of Local Government Public Debt in Zambia: Risk and Strategic Management Approaches.

Naaman Mwale[1], Chrine C. Hapompwe[2]
[1]ZCAS University, School of Business, 10101
[2]Unicaf University Zambia, 10101

ABSTRACT: Local government debt has increasingly become a critical challenge for fiscal sustainability and the effective delivery of public services in Zambia. This paper undertakes aanalytical desk review of Local Government Public Debt in Zambia: Risk and Strategic Management Approaches. The review is guided by three objectives which are to evaluate the nature, scale, and composition of public debt among 116 local authorities in Zambia; to analyze the associated fiscal and economic risks of public debt at the local government level in Zambia, and recommend strategic management approaches aimed at enhancing debt sustainability and improving delivery of local services. The study is based on desk review which entailed a systematic and critical examination of national policy documents and official government reports related and /or incidental to the subject matter. Through a combination of qualitative and quantitative methodologies, quantitative analysis was used to examine trends and patterns in debt accumulation, while qualitative assessment captured contextual and institutional factors influencing debt management. The key findings revealed that public debt among 116 local authorities in Zambia is predominantly arrears-based rather than driven by formal borrowing, a substantial escalation in the scale of debt and arrears over the three-year period, with total verified obligations increasing from ZMW 4.38 billion in June 2022 to ZMW 5.86 billion by June 2025, representing a 33.86% rise. The findings indicate that arrears are not confined to a single expenditure category but are widespread across operational, statutory, and development-related obligations, underscoring the systemic nature of fiscal stress within local authorities. Statutory obligations, personnel-related arrears, and unpaid supplier and contractor liabilities constitute the largest components of local government debt, with urban and economically active councils generally exhibiting higher debt levels than rural councils. The analysis further established that the current structure of local government debt poses significant fiscal and economic risks. Rising statutory penalties and interest charges are eroding already constrained fiscal space, limiting resources available for service delivery and development expenditure. Increasing utility arrears heighten the risk of service disruptions and create contingent liabilities, while arrears to suppliers and contractors impose liquidity constraints on the local private sector, raise procurement costs, and weaken local economic activity. The reliance on arrears as an implicit financing mechanism undermines budget credibility and fiscal transparency, reinforcing a cycle of fiscal fragility at the local government level. Arising from the study's findings, the study recommends several strategic management approaches to enhance debt sustainability, including debt restructuring, liquidation plans, strengthening revenue mobilization, budgetary controls, and institutionalized monitoring and evaluation mechanisms. Further, aligning recruitment and payroll policies with fiscal capacity and engaging with credit rating agencies can improve the financial credibility and borrowing capacity of local authorities. This study contributes to the literature by providing a comprehensive, evidence-based assessment of local government debt in Zambia, highlighting both its structural drivers and systemic risks. The findings have important policy implications, informing the design of debt management strategies, enhancing fiscal discipline, improving local service delivery, and supporting the broader decentralization agenda in Zambia.

KEYWORDS: Local Government, Public Debt, Risk, Strategic Management Approaches, Zambia.

1.0 INTRODUCTORY BACKGROUND

Public debt remains one of the most debated topics in economics and public finance, as governments' worldwide struggle to balance fiscal sustainability with growing demands for public services and infrastructure (Reinhart & Rogoff, 2010; IMF, 2021). While most scholarships have historically focused on central government debt, subnational governments including states, provinces, municipalities, and councils are increasingly recognized as critical actors in public finance (Bahl & Bird, 2018; Smoke, 2015). Local governments play an essential role in service delivery and development but often operate under constrained fiscal environments. When local borrowing is poorly managed, it can exacerbate fiscal risks, reduce service delivery efficiency, and undermine the credibility of decentralization policies (Faguet, 2012; Auditor General, 2022; Mwale & Hapompwe, 2024a).

Globally, local government debt has systemic implications for national economies. For example, the Maastricht Treaty (1992) in Europe incorporated subnational borrowing into the overall general government debt metric, highlighting its importance for national fiscal stability (Vértesy, 2020). During the European sovereign debt crisis, countries such as Greece, Portugal, and Spain experienced fiscal stress not only from central government debt but also from unsustainable local government borrowing, worsened by reductions in central transfers and weak fiscal oversight (European Commission, 2012; Vértesy, 2020). This underscores that managing local government debt is not merely a local issue but a national imperative.

In Sub-Saharan Africa, the dynamics of subnational debt have gained increasing attention, particularly within decentralization reforms. Countries such as South Africa, Kenya, and Nigeria have struggled to balance enhanced fiscal autonomy for local governments with the risks of mismanagement, arrears, and contingent liabilities that often fall back on central governments (Smoke, 2015; Bahl & Bird, 2018). Weak local revenue bases, dependence on intergovernmental transfers, political interference, and inadequate debt management frameworks make local authorities vulnerable to fiscal stress (ZIPAR, 2021). Rising local debt burdens often result in arrears to contractors, wage delays, and diminished service delivery capacity, challenges that closely mirror Zambia's experience (Auditor General, 2022).

In Zambia, public debt challenges have intensified over the last decade. National debt accumulation accelerated after 2017, with arrears rising to K59.45 billion by 2021 (Ministry of Finance and National Planning, 2021). This surge was driven by high expenditure commitments, debt service obligations, unbudgeted spending, and macroeconomic pressures including exchange rate depreciation, inflation, and slower economic growth. The COVID-19 pandemic further compounded these challenges by redirecting spending towards health and emergency response. The accumulation of arrears has constrained private sector liquidity, weakened business solvency, and undermined overall economic growth (Ministry of Finance and National Planning, 2021). Prior research has examined how external debt affects economic growth in Zambia. For instance, Kasuba and Habbazoka (2025) found a statistically significant correlation between external debt levels and GDP, suggesting that while debt can support short-term growth, it poses long-term risks if not managed prudently.

At the subnational level, local governments play a central role in Zambia's decentralization and development agenda. Through the Public Service Reform Programme (1993) and the National Ministry of Finance and National Planning Policy (2002, revised 2023), Zambia committed to devolving powers and strengthening fiscal decentralization to improve service delivery and community participation. The Fiscal Decentralization component was intended to provide local authorities with predictable, adequate, and sustainable financing. However, many councils continue to face fragile financial health due to limited capacity for own-source revenue mobilization, delays in central government transfers, and rising expenditure pressures, leading to arrears and accumulated debt (Ministry of Local Government and Rural Development, 2021; Local Authorities Debt and Arrears Monitoring Mechanism, 2023). As of June 2020, the cumulative debt of all Zambian local authorities stood at K2.8 billion, with statutory obligations accounting for 77.6 percent of total debt, including liabilities to the National Pension Scheme Authority (NAPSA), Zambia Revenue Authority (ZRA), and Local Authorities Superannuation Fund (LASF). Personnel-related debts, such as terminal benefits and wage arrears, made up 16.6 percent, while arrears to suppliers and contractors comprised the remainder (Local Authorities Debt and Arrears Monitoring Mechanism, 2023). This debt profile has significant implications: pension funds struggle to pay retirees, councils face operational constraints due to wage arrears, and suppliers experience liquidity shortages from unpaid bills.

The risks of unsustainable debt in Zambian local authorities extend beyond financial management. First, it undermines service delivery, diverting resources from infrastructure, health, and education to debt servicing (Auditor General, 2022). Second, it threatens the success of fiscal decentralization reforms, as councils lose credibility and operational capacity (Faguet, 2012). Third, unremitted statutory obligations create contingent liabilities for central government, potentially destabilizing national fiscal policy. Finally, poor subnational debt management has macroeconomic pass-through effects, particularly as councils resort to costly commercial borrowing and overdrafts (ZIPAR, 2021). To address these challenges, the Government of Zambia developed the Debt Management Strategy for Local Authorities (2021–2025), aimed at reducing existing arrears, strengthening borrowing controls, and restoring fiscal balance (Ministry of Finance and National Planning, 2021). Nonetheless, empirical research and systematic analyses of local government debt in Zambia remain limited, with most studies focusing on sovereign debt and national fiscal reforms. This knowledge gap hinders the design of evidence-based interventions to improve debt sustainability, service delivery, and decentralization outcomes.

It is within this context that the present study seeks to assess the dynamics of local government debt in Zambia, focusing on its fiscal and economic risks and strategies for sustainable management. By examining the nature and composition of subnational debt, evaluating associated risks, and exploring strategic management approaches, this study aims to contribute to both academic literature and policy reforms that support effective decentralization and fiscal stability.

1.1 Problem Statement

Local governments in Zambia are pivotal for service delivery, infrastructure development, and local economic growth. However, many councils have accumulated significant public debt due to limited revenue bases, irregular intergovernmental transfers, weak financial management, and rising expenditure pressures (Auditor General, 2022; ZIPAR, 2021). Debt arrears to suppliers, statutory obligations, and high-cost commercial borrowing further undermine fiscal sustainability. This accumulation of unsustainable subnational debt presents multiple risks. It impairs councils' ability to deliver essential public services, erodes public trust, and undermines decentralization objectives. Additionally, unremitted statutory obligations create contingent liabilities for the central government, potentially destabilizing national fiscal policy. Without effective debt management strategies, local governments remain vulnerable to macroeconomic shocks such as inflation, exchange rate volatility, and rising interest rates (Ministry of Finance and National Planning, 2021).

As of June 2020, total debt for all local authorities was estimated at K2.8 billion, with statutory obligations accounting for 77.6 percent of total debt (Ministry of Finance and National Planning, 2021). In response, the Government of Zambia developed the Debt Management Strategy (DMS) for Local Authorities (2021–2025), aiming to dismantle existing debt and guide future borrowing. Despite these interventions, research on local government debt remains limited, creating a gap in understanding the subnational dimension of debt, its associated risks, and strategies for mitigation (Faguet, 2012; Smoke, 2015).

1.2 Study Objectives

The study aims to:

a) Evaluate the nature, scale, and composition of public debt among 116 local authorities in Zambia.

b) Analyze the associated fiscal and economic risks of public debt at the local government level in Zambia.

c) Recommend strategic management approaches aimed at enhancing debt sustainability and improving delivery of local service.

2.0 LITERATURE REVIEW

2.1 Review of the Nature, Scale, and Composition of Public Debt Among Zambia's Local Governments

The nature, scale, and composition of subnational debt have been widely studied, reflecting the increasing role of local governments in public service delivery under decentralization reforms (Bahl & Bird, 2018; Ahmad & Brosio, 2021). Globally, local government debt is composed of long-term borrowing for capital projects, short-term cash flow financing, personnel-related obligations, and supplier liabilities (Shah & Shah, 2019; OECD, 2020). In Europe, research shows that municipalities with weak fiscal bases are highly dependent on intergovernmental transfers and borrowing, which often leads to arrears in wages and pensions (Lienert & Sarraf, 2017). Similarly, in the United States, cities with pension obligations exceeding local revenue capacity face recurrent fiscal stress, sometimes requiring state-level bailouts (Carr & Karwan, 2020; Fiva & Natvik, 2015).

Regionally, African municipalities experience similar patterns. In Nigeria, Okafor et al. (2020) report that local councils accumulate arrears due to irregular federal transfers and weak revenue administration. In Kenya, municipal debt has been linked to misalignment between expenditures and available fiscal resources, causing delayed payments to employees and service providers (Bird & Smart, 2019; Mwangi, 2021). South African municipalities demonstrate the effects of accumulated utility and personnel arrears, which compromise service delivery and expose local governments to legal challenges from creditors (De Visser, 2019; Lundi et al., 2021).

In Zambia, empirical studies and official reports indicate that local government debt is predominantly driven by statutory obligations, such as contributions to NAPSA and LASF, followed by personnel-related arrears, and supplier and contractor debts (Auditor General, 2022; ZIPAR, 2021). Mwale and Chanda (2023) highlight that disparities in economic development across districts contribute to differences in debt accumulation, with urban councils generally exhibiting higher debt levels due to larger wage bills and capital investment demands. Additionally, inconsistent data reporting and weak financial controls limit the capacity of local authorities to manage debt effectively (Ministry of Local Government and Rural Development, 2021; ZIPAR, 2022).

Collectively, these studies suggest that local government debt in Zambia reflects a combination of structural weaknesses, fiscal mismanagement, and insufficient revenue mobilization capacity a situation mirrored in other developing countries.

2.2 Review of the Associated Fiscal and Economic Risks of Public Debt in Local Government

The fiscal and economic risks of subnational debt are well-documented globally. Excessive indebtedness can undermine fiscal autonomy, compromise service delivery, and create contingent liabilities for higher levels of government (IMF, 2021; World Bank, 2020; He, Y. Q., et al., 2025; Mwale & Hapompwe, 2024b). In OECD countries, municipalities with chronic budget deficits face higher borrowing costs, reduced creditworthiness, and limited capacity to finance essential services (Lienert & Sarraf, 2017; OECD, 2020). He, Z. M., et al. (2025) show that excessive local government borrowing can create systemic banking risks, particularly where debt is funded through commercial loans.

In Africa, local government debt carries similar but often amplified risks due to weaker institutional frameworks and limited revenue-raising capacity. Bird and Smart (2019) argue that municipal debt arrears in Kenya negatively affect service delivery and citizen satisfaction. Okafor et al. (2020) report that high debt levels in Nigerian municipalities are associated with increased fiscal dependence on federal transfers, creating vulnerability to macroeconomic shocks. In South Africa, mismanagement of municipal debt has contributed to service delivery protests and operational inefficiencies (De Visser, 2019; Lundi et al., 2021).

Nationally, Zambia's local government debt presents multiple fiscal and economic risks. Unremitted statutory obligations threaten the solvency of LASF and NAPSA, while personnel-related arrears compromise payroll management and employee welfare (Auditor General, 2022). Weak own-source revenue mobilization, combined with poor budgetary compliance, increases dependence on central government transfers and exposes councils to liquidity constraints (ZIPAR, 2021, 2022). Furthermore, Chao et al. (2022) argue that regulatory frameworks can either mitigate or exacerbate these risks, depending on enforcement and local compliance. Mwale and Chanda (2023) note that ineffective debt monitoring and reporting practices amplify the vulnerability of Zambian local governments to fiscal shocks, echoing similar challenges observed in other developing countries.

2.3 Review of Strategic Management Approaches to Enhance Debt Sustainability and Local Service Delivery

Globally, integrated approaches combining debt monitoring, expenditure control, and revenue mobilization have proven effective in managing local government debt (OECD, 2020; Bahl & Bird, 2018; Carr & Karwan, 2020). Debt sustainability analyses, performance-based intergovernmental grants, and alignment of recruitment and payroll with fiscal capacity are commonly employed strategies to enhance municipal financial management (Lienert & Sarraf, 2017; Fiva & Natvik, 2015).

In Africa, strategic approaches to local government debt include modernizing revenue collection systems, restructuring existing debt, and implementing institutional controls over payroll and borrowing. In Kenya, digital property tax systems and performance-linked transfers have improved municipal revenue generation and debt management (Bird & Smart, 2019). In Nigeria, local governments adopting strict expenditure controls and debt reporting frameworks experienced improved fiscal discipline (Okafor et al., 2020). South African municipalities engaging credit rating agencies and restructuring arrears have demonstrated enhanced access to capital markets and improved fiscal sustainability (De Visser, 2019; Lundi et al., 2021).

In Zambia, policy frameworks and studies emphasize the importance of liquidation plans, debt restructuring, revenue mobilization, and monitoring mechanisms. ZIPAR (2021, 2022) recommends the use of standardized reporting, matching grants, and strategic engagement with credit rating agencies to enhance financial health. Auditor General (2022) stresses that aligning recruitment and payroll management with fiscal capacity can significantly reduce personnel-related debt accumulation. Mwale and Chanda (2023) further argue that robust debt monitoring and reporting systems are essential for preventing future debt accumulation and ensuring the sustainability of service delivery.

The literature collectively demonstrates that effective local government debt management requires a holistic approach, integrating fiscal controls, revenue enhancement, strategic planning, institutional oversight, and regulatory compliance. Lessons from global and regional contexts provide valuable insights for Zambia, highlighting the importance of adaptive, context-specific strategies that address structural, institutional, and fiscal challenges (Mwale, Hapompwe, Nshimbi & Mlawasi, 2025; Ministry of Finance, 2022; Ahmad & Brosio, 2021).

2.2. Gaps in Literature

Despite extensive research on local government debt, several gaps remain that justify further investigation, particularly in the Zambian context. Most studies on public debt in Zambia focus on national-level debt and macroeconomic impacts (Ministry of Finance, 2022; ZIPAR, 2021). There is limited empirical analysis of the nature, scale, and composition of debt at the local government level, particularly in differentiating between urban and rural councils (Huang et al., 2025; He, Z. M., et al., 2025). This is important because the heterogeneity in resource endowments and economic activity across Local Authorities may result in significant variations in debt structures and repayment capacity (Bahl & Bird, 2018). While the literature identifies the risks associated with local government debt including arrears, contingent liabilities, and reduced fiscal autonomy (World Bank, 2020; IMF, 2021) few studies quantify the specific impact of these risks on service delivery and macroeconomic stability in Zambia

(Auditor General, 2022; ZIPAR, 2022). Additionally, the interaction between central government support and local borrowing practices remains underexplored, limiting understanding of how coordination failures exacerbate debt-related vulnerabilities (Smoke, 2015). Although debt management strategies such as liquidation plans, revenue enhancement, and performance-based incentives have been proposed (Auditor General, 2022; Ministry of Finance, 2022; ZIPAR, 2021), there is little empirical evaluation of their effectiveness in the Zambian context. Specifically, there is a lack of evidence to the extent to which these approaches improve debt sustainability, enhance local revenue mobilization, and contribute to better service delivery outcomes.

2.3. Theoretical Framework

2.3.1 Local Government Finance Model

The model forming the theoretical framework for this research study is the Local Government Finance Model developed by the Institute for Fiscal Studies (IFS), in partnership with the Chartered Institute of Public Finance and Accountancy (CIPFA) (Rivenbark, Roenigk & Allison, 2010). Thus, the model is also known as the IFS-CIPFA Local Government Finance model (Phillips, 2023). The local government finance model is a crucial aspect of governance that determines how local authorities generate revenue to fund essential services and infrastructure development. This model varies across different countries, but its primary objective remains consistent: to ensure the financial sustainability of local governments. An important aspect of the local government finance model is fiscal decentralisation (Phillips, 2023). This involves granting greater autonomy to local authorities in managing their finances and making decisions regarding expenditure priorities (Rivenbark et al., 2010). As stated by Rivenbark et al. (2010), fiscal decentralisation promotes accountability and responsiveness by allowing communities to have a say in how their tax dollars are spent. In this study, the model aided in guiding the development of the conceptual framework as well as the model for assessing local government public debt in Zambia.

2.3.2 New Public Financial Management Theory

More so, the other model forming the theoretical framework for this research study is the New Public Financial Management (NPFM) theory, which is a modern approach to financial management that emphasizes transparency, accountability, and efficiency in the use of public resources (Fisher, 2022). The theory is a modern approach to public financial management that emerged in the 1990s. It challenges the traditional methods of financial management in the public sector and aims to improve accountability, transparency, and efficiency in government spending (Garcia-Sanchez & Cuadrado-Ballesteros, 2016). The NPFM has emerged as a new theory aiming to enhance revenue generation and management within local governments (Fisher, 2022). According to Garcia-Sanchez and Cuadrado-Ballesteros (2016), NPFM refers to “reforms introduced in systems, procedures, organizations, and law for obtaining and effectively using public financial resources, which encompass not only expenditures but also revenues and debt in the context of public budgeting, accounting, internal and external control, and financial reporting”. The theory emphasizes the need to enhance revenue capacities at the local level, enabling local governments to meet citizens' demands effectively (Bovaird & Löffler, 2015). This NPFM theory encourages local governments to adopt innovative strategies to diversify and expand their revenue base (Garcia-Sanchez & Cuadrado-Ballesteros, 2016). In this study, the model aided in guiding the development of the conceptual framework as well as the model for assessing local government public debt in Zambia.

2.4. Conceptual Framework

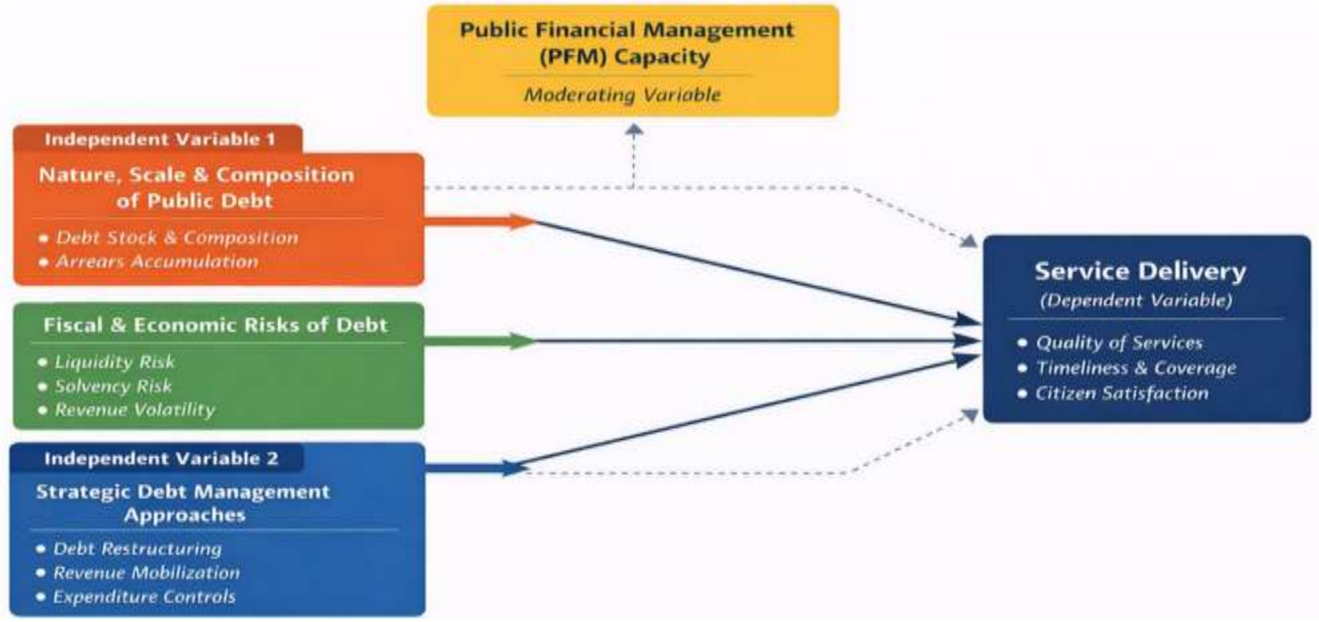

Figure 1 Study's Conceptual Framework
Source: Researchers Design (2025)

2.4.1 Operationalization of Variables

Operationalization involves translating conceptual constructions into measurable variables suitable for empirical analysis. In this study, the independent, mediating, moderating, and dependent variables are operationalized in a manner consistent with the study objectives and the conceptual framework.

2.4.1.1 Nature, Scale, and Composition of Public Debt

The nature, scale, and composition of public debt refer to the size, structure, and characteristics of debt obligations incurred by local authorities, including both formal borrowing and accumulated arrears. In this study, this variable is operationalized through the assessment of total outstanding debt stock, the composition of debt in terms of short-term and long-term obligations, and the level of arrears owed to suppliers, statutory institutions, and pension funds. High levels of debt and persistent arrears are expected to reduce fiscal space and divert financial resources away from service provision toward debt servicing. Consequently, local authorities with large and poorly structured debt portfolios are likely to experience challenges in maintaining the quality, timeliness, and coverage of service delivery.

2.4.1.2 Fiscal and Economic Risks of Public Debt

Fiscal and economic risks of public debt refer to the financial vulnerabilities that arise from debt exposure and affect the operational capacity of local authorities. In this study, these risks are operationalized through liquidity risk, solvency risk, and revenue volatility. Liquidity risk reflects the ability of local authorities to meet short-term financial obligations as they fall due, while solvency risk captures the long-term sustainability of debt levels. Revenue volatility reflects instability in own-source revenues and intergovernmental fiscal transfers. These fiscal and economic risks are treated as a mediating variable, as they transmit the effects of public debt into operational constraints that directly influence service delivery outcomes. Increased fiscal risks are expected to result in delayed payments, disrupted service provision, and deterioration in service quality.

2.4.1.3 Strategic Debt Management Approaches

Strategic debt management approaches refer to deliberate policy and administrative measures adopted by local authorities to manage debt levels and mitigate associated fiscal risks. In this study, this variable is operationalized through the assessment of debt restructuring initiatives, revenue mobilization efforts, and expenditure control mechanisms. Effective debt management strategies are expected to reduce debt servicing pressures, enhance fiscal capacity, and improve resource allocation. As a result, local authorities that implement sound debt management approaches are more likely to sustain and improve service delivery, even in the presence of existing debt obligations.

2.4.1.4 Public Financial Management Capacity

Public Financial Management capacity refers to the institutional ability of local authorities to plan, execute, control, and report on public financial resources in a transparent, efficient, and accountable manner. In this study, PFM capacity is operationalized through budget credibility and execution performance, the strength of internal control systems, and compliance with procurement and audit requirements. PFM capacity is treated as a moderating variable, as it influences the strength and direction of the relationship between public debt and service delivery. Strong PFM systems are expected to reduce inefficiencies and enhance accountability, thereby weakening the negative effects of public debt on service delivery. Conversely, weak PFM capacity is likely to amplify fiscal risks and exacerbate service delivery challenges.

2.4.1.5 Service Delivery

Service delivery refers to the extent to which local authorities provide public services effectively, efficiently, and in a timely manner to meet the needs of citizens. In this study, service delivery is operationalized through the assessment of the quality of services provided, the timeliness and coverage of service provision, and the level of citizen satisfaction. Improvements in service delivery are expected where fiscal pressures are well managed and institutional capacity is strong.

3.0 METHODOLOGY

This study employed a mixed-methods approach, combining qualitative and quantitative approaches. A desk review of secondary data on public debt at the local government level in 116 local authorities in Zambia. The desk review entailed a systematic and critical examination of national policy documents and official government reports , i.e., Debt Management Strategy for Local Authorities 2021-2025 (2020), the Local Authorities Debt and Arrears Monitoring Mechanism (2023), the Report of the Auditor General on the Accounts of Local Authorities (2022), the Bi Annual Budget Performance Review Report for Local Authorities (2025) and the Dismantling of Domestic Arrears Strategy (2022) from official government sources, the Ministry of Finance and National Planning and the Ministry of Local Government and Rural Development. The collected data was organized and processed to ensure consistency and suitability for quantitative analysis.

The quantitative component of the study analyzed the nature, scale, and composition of public debt across 116 Local Authorities in Zambia over time, enabling the identification of trends and changes in debt accumulation at the local government level (Bahl & Bird, 2018). This involved statistical assessments of debt stock, including personnel-related arrears, statutory obligations, and liabilities to suppliers and creditors. To complement the quantitative analysis, the study incorporated qualitative methods, including document reviews, policy analyses, and case-based assessments. These methods provided insights into the contextual and institutional factors influencing local government debt, including fiscal management practices, decentralisation policies, and compliance with statutory obligations (Smoke, 2015; Faguet, 2012). Qualitative analysis also illuminated the associated fiscal and economic risks of local government debt and the strategic management approaches aimed at enhancing debt sustainability and improving service delivery. The integration of both quantitative and qualitative methods ensured a comprehensive understanding of local government debt, combining numerical trends with institutional and contextual insights, and allowing for evidence-based recommendations for policy and practice (Creswell & Creswell, 2018).

4.0 FINDINGS

4.1 Findings of the nature, scale, and composition of public debt among Zambia’s local governments.

The analysis reveals a substantial escalation in the scale of local government debt and arrears in 116 local authorities in Zambia over the three-year period, with total verified obligations increasing from ZMW 4.38 billion in June 2022 to ZMW 5.86 billion by June 2025, representing a 33.86% rise. The findings indicate that arrears are not confined to a single expenditure category but are widespread across operational, statutory, and development-related obligations, underscoring the systemic nature of fiscal stress within local authorities.

Table 1.

Sn	Debt/Arrears Type	June 2022 -Verified Amount (ZMW)	September 2023 -Verified Amount (ZMW)	June 2025 -Verified Amount (ZMW)	+/- % Change
1	Personnel Emoluments	411,215,442.88	431,521,309.22	289,926,530.23	**-29.50%**
2	Zamtel - Telephone Bills	6,718,030.77	6,220,209.82	11,820,803.09	**75.96%**
3	Zesco Electricity Bills	6,922,875.80	7,714,613.91	36,732,241.32	**430.59%**
4	Water & Sanitation Bills	34,342,427.86	33,883,633.92	34,470,968.53	**0.37%**
5	Court Related Charges	41,610,682.73	110,223,284.02	13,605,014.22	**-67.30%**
6	Pensions Contributions	2,119,117,114.47	2,202,162,003.65	1,479,257,970.00	**-30.19%**
7	Pensions - Penalties & Interest	638,385,681.45	645,012,691.57	2,423,703,134.26	**279.66%**
8	ZRA (PAYE) Payable	918,755,484.93	954,161,140.56	1,382,139,073.77	**50.44%**
9	ZRA (PAYE) Penalties & Interest	117,362,291.29	117,384,648.78	141,856,491.90	**20.87%**
10	Goods & Services	72,215,557.18	74,755,602.79	39,613,028.01	**-45.15%**
11	Capital Projects (Infrastructure)	14,072,960.91	12,892,609.09	11,062,700.08	**-21.39%**
	GRAND TOTAL	**4,380,718,550.28**	**4,595,931,747.33**	**5,864,187,955.41**	**33.86%**

Source: Ministry of Finance and National Planning (2025)

In terms of composition, table 1 above shows the fastest-growing debt/arrears are linked to utility payments and statutory obligations. Notably, arrears to ZESCO increased by 430.59%, while penalties and interest on pension obligations rose by 279.66%, highlighting chronic non-remittance and compounding statutory liabilities. Telephone bill arrears to Zamtel also grew by 75.96%, and outstanding PAYE obligations to the Zambia Revenue Authority increased by 50.44%, further demonstrating the persistent accumulation of legal and statutory debt. These patterns suggest that local authorities are increasingly unable to meet recurring obligations, particularly in areas where non-compliance attracts punitive penalties and interest.

Conversely, the data shows reductions in several categories, including personnel emoluments (–29.50%), pension contributions (–30.19%), goods and services (–45.15%), capital project arrears (–21.39%), and most notably, court-related charges (–67.30%). While these decreases may reflect partial settlement efforts or reduced commitments, they may also signal constrained service delivery, deferred investment in infrastructure, or the suppression of operational spending due to liquidity challenges.

4.2 Findings on Fiscal and Economic Risks of Public Debt Associated with Local Government Debt in Zambia

The study finds that rising local government debt in Zambia presents significant fiscal and economic risks that threaten both service delivery and broader development outcomes. Evidence indicates that excessive or poorly managed debt has weakened debt sustainability in several local authorities, with increasing repayment obligations constraining already limited local budgets and reducing the fiscal space available for essential public services such as water supply, waste management, health, and local infrastructure (GRZ, 2023; ZIPAR, 2022). The analysis further shows that high debt burdens have generated liquidity pressures in some local authorities, leading to the accumulation of arrears, delayed payments of personal related arears such has staff salaries and statutory obligations to Zambia Revenue Authority (ZRA) and National Pensions Scheme Authority (NAPSA) and delayed payments to suppliers, and periodic disruptions in service provision issues consistent with earlier assessments of subnational fiscal stress in Zambia (Auditor General, 2022).

At the macro-fiscal level, the research finds that unsustainable borrowing at the local level creates contingent liabilities for central government, which may be forced to intervene through emergency transfers, debt swaps or bailouts, thereby amplifying national fiscal risks (World Bank, 2021). This can be also done through Central Government introducing a restructuring grant to Local Authorities to complement the effort of Local Authorities in dismantling the existing debt. This is premised on the understanding that without Central Government support, dismantling the existing debt from the current funding levels of Local Authorities remains a daunting task, especially that the Local Authorities are also required to concurrently continue providing public goods and services in their respective jurisdictions. Economically, over-indebted councils have been observed to delay or cancel capital projects, resulting in reduced local investment, slower economic activity, and declining public confidence in local governance (Mukwena & Phiri, 2020). High debt levels also elevate the cost of future borrowing and may crowd out private sector credit, especially where local governments compete with SMEs for financing from domestic financial institutions (Bank of Zambia, 2022). These risks are heightened in environments with weak public financial management systems, limited revenue forecasting capacity, and inadequate oversight conditions documented in several performance audits of local authorities in Zambia highlighted in Treasury Minute on the report of the committee of Local Government accounts on the report of the Auditor General on the accounts of Local Authorities for the financial year ended 31st December, 2022 (Auditor General, 2022; Mumba et al., 2023). Overall, the findings underscore the need for strengthened debt governance, more transparent borrowing practices, and improved

PFM systems in expenditure execution, revenue mobilization; exploiting the expanded base for collecting property rates arising from the repeal of the 2018 Rating Act, review of other pieces of legislation that have revenue implications and other revenue administrative efficiencies such as strengthening the know your tax payers, improved tax payer data base management and budget planning to safeguard the fiscal health of local authorities and support sustainable local development.

4.3 Findings on Strategic Management Approaches to Enhance Debt Sustainability and Service Delivery

The analysis of verified arrears data for the period June 2022 to June 2025 highlights how management practices at local authority level directly influence debt sustainability and the capacity to deliver public services.

First, reductions observed in personnel emoluments, pensions contributions, court-related charges, and goods and services arrears suggest that targeted arrears management and payment prioritization can be effective when actively enforced. These improvements are consistent with recent public financial management evidence showing that strengthened commitment controls and focused arrears clearance strategies can stabilize subnational finances in the short term (World Bank, 2022; IMF, 2023). In the Zambian context, the Office of the Auditor-General has similarly noted that arrears reduction is achievable where local authorities deliberately prioritize legally binding obligations (Auditor-General of Zambia, 2024). However, these gains are undermined by substantial increases in utility arrears and statutory tax liabilities, particularly electricity bills and PAYE obligations. The rapid growth in electricity arrears reflects weak budgeting for unavoidable recurrent expenditures and inadequate cash-flow planning. Recent Zambian audit reports consistently identify non-credible budgets and poor expenditure prioritization as key drivers of arrears accumulation in local authorities (Auditor-General of Zambia, 2022; MLGRD, 2024). International literature confirms that when recurrent and statutory expenditures are underfunded, arrears become a structural feature rather than a temporary liquidity issue (World Bank, 2022).

A critical finding concerns the sharp escalation in penalties and interest on pension and tax arrears, especially pensions-related penalties. This pattern demonstrates how delayed compliance transforms manageable obligations into rapidly growing debt stocks. The IMF (2023) identifies penalty-driven arrears as a major fiscal risk in low- and middle-income countries, noting that interest compounding reduces fiscal space without improving service delivery. In Zambia, recent fiscal risk statements have similarly warned that penalties on statutory arrears are a significant and avoidable source of subnational debt growth (Ministry of Finance and National Planning, 2023). The data further indicate a contraction in capital project arrears, suggesting that infrastructure spending is being deferred as part of short-term cash management strategies. While this may temporarily ease liquidity pressures, it poses long-term risks to service delivery and local economic development. Empirical studies show that sustained underinvestment in local infrastructure leads to service deterioration and higher future fiscal costs (World Bank, 2021). Zambian policy analyses caution that continued postponement of municipal infrastructure projects undermines the effectiveness of decentralization and weakens citizen trust in local government service provision (ZIPAR, 2024). Despite improvements in selected arrears categories, the overall increase in total arrears indicates that current management approaches remain fragmented and largely reactive. Recent subnational finance literature emphasizes that sustainable debt management requires system-wide reforms, including credible budget formulation, hard commitment controls, and early arrears monitoring mechanisms (IMF, 2023; World Bank, 2022). The persistence of rising aggregate arrears in Zambia's local authorities suggests that isolated arrears clearance efforts, in the absence of broader institutional reforms, are insufficient to restore fiscal sustainability (Auditor-General of Zambia, 2023).

Overall, the findings demonstrate that enhancing debt sustainability while safeguarding service delivery requires a shift from ad hoc arrears management toward preventive and rules-based financial governance. This includes fully funding statutory and utility obligations in annual budgets, strengthening cash and commitment controls, and minimizing penalty-driven debt accumulation, as emphasized in Zambia's recent local government fiscal reform agenda (MLGRD, 2024).

5.0 DISCUSSION OF FINDINGS

5.1 Nature, Scale, and Composition of Public Debt Among Zambia's Local Governments

The findings reveal a significant deterioration in the fiscal position of local authorities in Zambia over the period under review, with total verified arrears increasing from ZMW 4.38 billion in June 2022 to ZMW 5.86 billion in June 2025, representing a 33.86% rise. This upward trend demonstrates escalating fiscal stress and highlights persistent weaknesses in local authorities' expenditure management, revenue mobilization, and statutory compliance (Ministry of Local Finance and National Planning, 2025)

A key observation is the substantial increase in utility-related arrears, particularly electricity bills owed to ZESCO. These arrears rose from ZMW 6.92 million in June 2022 to ZMW 36.73 million in June 2025, marking an unprecedented 430.59% increase. Such a sharp accumulation suggests chronic underpayment for electricity services, likely resulting from operational cash-flow shortages and weak prioritization of utility obligations. Similarly, arrears to Zamtel for telephone services increased from ZMW 6.72 million in 2022 to ZMW 11.82 million by June 2025, a 75.96% rise indicating consistent delays in settling communication-related costs. Equally concerning is the sharp escalation of statutory arrears. Pension penalties and interest increased from ZMW 638.39 million in 2022 to ZMW 2.42 billion by 2025 an alarming 279.66% growth. At the same time, arrears related to PAYE (ZRA) climbed from ZMW 918.76 million to ZMW 1.38 billion, representing a 50.44% increase, while PAYE penalties and interest grew from ZMW 117.36 million to ZMW 141.86 million, a 20.87% rise. These trends show that councils continue to defer statutory remittances, allowing penalties and interest to compound. This behaviour reflects deeper structural deficiencies in compliance and exposes local authorities to expanding legal and fiscal risks.

In contrast, several arrears categories experienced reductions. Personnel emoluments decreased from ZMW 411.22 million in June 2022 to ZMW 289.93 million in June 2025, a 29.50% reduction. This may indicate improved payroll management, prioritization of salary payments, or external interventions to stabilize wage arrears. Goods and services arrears similarly fell from ZMW 72.22 million to ZMW 39.61 million, a 45.15% decline, which may, however, reflect reduced procurement activity rather than improved financial performance. Pension contributions arrears dropped from ZMW 2.12 billion in June 2022 to ZMW 1.48 billion in June 2025, a 30.19% decline yet the simultaneous rise in penalties highlights continued delays in remittance despite partial payments. Capital project arrears also fell from ZMW 14.07 million to ZMW 11.06 million, representing a 21.39% decrease. While this reduction may signal progress in settling infrastructure-related obligations, it could equally reflect the slowdown or postponement of development projects due to worsening liquidity conditions. Notably, court-related charges declined dramatically from ZMW 41.61 million to ZMW 13.60 million (a 67.30% reduction), suggesting either the resolution of long-standing legal cases or a deliberate effort to clear litigation-related debt.

The changing composition of arrears indicates that the burden is shifting from operational and developmental expenditures toward statutory and utility obligations. By June 2025, arrears on pension penalties, PAYE, and electricity bills collectively accounted for a significant share of total outstanding obligations, highlighting the dominance of obligations that attract compounding financial consequences when unpaid. This shift suggests that local authorities are prioritizing immediate and visible service obligations while deferring statutory payments, creating long-term fiscal vulnerabilities. Overall, the figures reveal a local government system grappling with structural fiscal stress. Rising arrears across statutory and utility categories reflect weaknesses in cash-flow management and compliance, while reductions in developmental and service-delivery arrears may indicate suppressed spending rather than improved financial discipline. These trends underscore the urgent need for strengthened fiscal governance, improved revenue collection capacity, predictable transfers, and stricter enforcement of statutory remittances if local authorities are to restore financial sustainability.

5.2 Fiscal and Economic Risks Associated with Local Government Debt and Arrears

5.2.1 Evolution, Scale, Composition of Arrears and Fiscal Risk Reallocation of Local Government Arrears

The analysis reveals a marked deterioration in the arrears position of local governments over the study period. Total verified arrears increased by 33.86%, rising from ZMW 4.38 billion in June 2022 to ZMW 5.86 billion by June 2025. This sustained increase indicates that arrears accumulation is not episodic or shock-driven, but rather structural in nature. Recent public finance literature emphasizes that persistent subnational arrears are symptomatic of weak fiscal frameworks, where expenditure mandates exceed predictable revenue flows and enforcement of commitment controls is limited (World Bank, 2021; IMF, 2022). In this context, arrears function as a form of implicit borrowing, masking underlying fiscal imbalances and weakening fiscal transparency. While reductions were observed in personnel emoluments (-29.5%) and pension contribution arrears (-30.19%), the overall arrears position worsened due to significant increases in other categories. This shift in composition suggests a reallocation rather than resolution of fiscal risk. Contemporary studies note that subnational governments often prioritize politically sensitive obligations, such as wages, while deferring less visible statutory and supplier payments (OECD, 2020; World Bank, 2023). Such selective adjustment can temporarily reduce social and political pressure but ultimately increases fiscal costs, as deferred obligations tend to accumulate penalties and interest.

The most critical fiscal risk identified relates to the rapid growth of statutory arrears and associated penalties. PAYE liabilities increased by 50.44%, while pension penalties and interest rose sharply by 279.66%. The growth of penalty-driven arrears far outpaced that of principal obligations, indicating chronic delays in statutory compliance. Recent IMF analysis underscores that penalty and interest arrears are among the most fiscally damaging forms of subnational debt, as they absorb scarce fiscal resources without contributing to service delivery or asset creation (IMF, 2021). Furthermore, rising statutory arrears expose local governments to enforcement mechanisms such as transfer offsets or legal recovery, increasing fiscal uncertainty and weakening budget credibility (World Bank, 2022). A particularly significant finding is the 430.59% increase in electricity arrears, alongside a marginal rise in water and sanitation arrears. Utility arrears pose both immediate fiscal risks and broader economic risks. From a fiscal standpoint, they generate escalating penalties and contingent liabilities; from an economic perspective, they increase the risk of service disruptions that directly affect households, businesses, and public institutions. Recent urban finance literature highlights that utility arrears at the local government level are strongly associated with weak cost-recovery mechanisms, poor cash forecasting, and inadequate alignment between service delivery responsibilities and revenue authority (World Bank, 2021; UN-Habitat, 2023). Persistent utility arrears therefore undermine both fiscal sustainability and local economic productivity.

5.2.2 Legal Liabilities, Institutional Governance Risks, Expenditure Compression and Developmental Implications

The observed decline in arrears related to goods and services (-45.15%) and capital projects (-21.39%) appears to reflect expenditure compression rather than improved fiscal health. While this may temporarily ease liquidity pressures, it carries adverse long-term consequences. Recent evidence suggests that sustained under-execution of capital expenditure at the subnational level constrains infrastructure development, exacerbates service delivery backlogs, and weakens local growth potential (World Bank, 2020; IMF, 2023). In addition, delayed payments to suppliers reduce private sector confidence and increase the cost of public procurement through risk premiums. Court-related arrears declined significantly by 67.30% by June 2025, following a substantial increase in 2023. This volatility points to episodic legal exposure linked to procurement disputes, employment claims, and weak contract management systems. Recent PFM diagnostics emphasize that unpredictable legal liabilities are a key source of fiscal risk at the subnational level, often reflecting deficiencies in internal controls, contract oversight, and dispute resolution mechanisms (PEFA Secretariat, 2022; World Bank, 2024). Although the reduction lowers immediate fiscal pressure, the earlier accumulation signals underlying governance weaknesses.

5.2.3 Spillover Effects on the Local Economy and Private Sector and Overall Assessment of Fiscal and Economic Risk

The accumulation of local government arrears has significant spillover effects on the local economy. Delayed payments constrain cash flows for suppliers and contractors particularly small and medium enterprises, leading to reduced investment, employment losses, and higher borrowing costs. Recent studies conceptualize arrears as hidden debt, with adverse macroeconomic and microeconomic consequences, including reduced fiscal transparency and weakened private sector confidence (IMF, 2022; OECD, 2021). These spillovers reinforce a negative feedback loop; whereby weaker local economic performance further constrains revenue mobilization. Taken together, the findings indicate that local government arrears are becoming increasingly statutory-driven, penalty-intensive, and economically distortionary. Improvements in wages and supplier arrears have been offset by rising statutory non-compliance and utility debt, suggesting that current adjustment strategies are neither comprehensive nor sustainable. Recent international experience highlights that without integrated arrears clearance strategies, strengthened commitment controls, and improved alignment between mandates and resources, subnational arrears can evolve into persistent fiscal solvency risks (World Bank, 2023; IMF, 2024).

5.3 Strategic Management Approaches for Enhancing Debt Sustainability and Service Delivery

5.3.1 Strengthening Commitment Controls and Arrears Prevention Frameworks

A central strategic priority for enhancing debt sustainability in Zambian local governments is the strengthening of commitment controls throughout the expenditure cycle. Evidence from national audits and fiscal reviews consistently indicates that arrears accumulation at council level is driven by commitments entered without confirmed cash backing, particularly for statutory obligations and utilities (Office of the Auditor General [OAG], 2022; Ministry of Finance and National Planning [MoFNP], 2023). In line with Zambia’s ongoing public financial management reforms, recent guidance emphasizes the use of commitment ceilings, quarterly cash limits, and integration of local authorities into the national Integrated Financial Management Information System (IFMIS) to prevent the accumulation of new arrears (MoFNP, 2022; IMF, 2024). Effective enforcement of these controls is critical to restoring budget credibility and preventing the re-emergence of arrears. The persistence and reallocation of arrears across expenditure categories highlights the absence of structured arrears clearance strategies at the local level. In Zambia, arrears clearance has often been ad hoc and fiscally residual, undermining transparency and predictability (World Bank, 2021; OAG, 2024). Recent policy guidance under Zambia’s Medium-Term Debt Management Strategy and intergovernmental fiscal reform agenda recommends the adoption of verified arrears registers, explicit prioritization criteria, and dedicated budget provisions for arrears reduction at both central and local government levels (MoFNP, 2024). Institutionalizing such frameworks would reduce uncertainty, restore supplier confidence, and limit the accumulation of penalty-driven liabilities.

5.3.2 Enhancing Utility Debt Management, Statutory Compliance and Reducing Penalty-Driven Debt

The rapid growth in statutory penalties and interest underscores the need for targeted strategies to improve statutory compliance by local authorities. In Zambia, reports by the Auditor General have repeatedly flagged non-remittance of PAYE, pension contributions, and other statutory deductions as a key driver of escalating liabilities (OAG, 2022; OAG, 2024). Recent IMF and World Bank assessments of Zambia’s subnational fiscal risks emphasize the importance of ring-fencing statutory payments, automating deductions at source, and strengthening enforcement mechanisms to curb penalty accumulation (IMF, 2022; World Bank, 2023). Improved statutory compliance would significantly enhance debt sustainability by eliminating non-productive expenditure and reducing exposure to enforcement actions. The sharp increase in electricity arrears highlights structural weaknesses in utility debt management at the local government level. In Zambia, arrears to ZESCO and water utilities have been linked to weak cost recovery, poor billing discipline, and inadequate budgetary provision for operational expenditures (World Bank, 2021; MoFNP, 2023). Strategic management approaches include negotiated repayment plans with utilities, improved metering of public facilities, and gradual alignment of tariffs and fees with service delivery costs, consistent with Zambia's decentralisation and urban development policies (UN-Habitat, 2023; Ministry of Local Government and Rural Development [MLGRD], 2022). Effective utility debt management directly supports service continuity and local economic activity.

5.3.3 Strengthening Own-Source Revenue Mobilization and Strategic Expenditure Prioritization

Enhancing debt sustainability in local governments requires strengthening own-source revenue mobilization, which remains weak and volatile. National reform programmes, including property tax reforms and digital revenue management initiatives, have identified local revenue enhancement as a critical pillar of fiscal sustainability (MoFNP, 2022; World Bank, 2023). Recent empirical assessments in Zambia highlight the importance of updated valuation rolls, improved billing and enforcement, and integration of local revenue systems with national digital platforms to improve predictability and cash flow management (OECD, 2021; MLGRD, 2023). Stronger own-source revenues reduce reliance on arrears as an implicit financing mechanism and improve service delivery outcomes. The decline in capital and goods-and-services arrears suggests that fiscal adjustment at the local level may be occurring through expenditure compression, with implications for service delivery. In Zambia, under-execution of capital budgets by local authorities has been identified as a persistent challenge, particularly in infrastructure and maintenance spending (OAG, 2023; World Bank, 2020). Recent public investment management reforms emphasize the need to protect high-impact capital and maintenance expenditure, even under fiscal stress, to avoid long-term infrastructure degradation and service delivery failures (IMF, 2023; MoFNP, 2024). Medium-term expenditure frameworks at the local level can help align investment planning with realistic financing envelopes.

5.3.4 Governance, Transparency, and Accountability Mechanisms

Strengthening governance and accountability is critical for sustaining debt sustainability and service delivery reforms in Zambia's local governments. Persistent weaknesses in arrears reporting, contract management, and internal controls have been repeatedly highlighted in Auditor General reports (OAG, 2022; OAG, 2024). Recent governance-focused reforms under Zambia's decentralisation policy emphasize transparent reporting of arrears, strengthened oversight by councils, and improved audit follow-up mechanisms (MLGRD, 2022; PEFA Secretariat, 2022). Embedding these accountability mechanisms reduces fiscal risk and improves the credibility of local government financial management.

Overall, enhancing debt sustainability and service delivery in Zambian local governments requires an integrated strategic management approach aligned with national PFM reforms and decentralisation objectives. Strengthened commitment controls, structured arrears clearance, improved statutory compliance, utility debt management, revenue enhancement, and governance reforms must be pursued concurrently to achieve durable fiscal and service delivery outcomes.

6.0 CONCLUSION AND RECOMMENDATIONS

6.1 Conclusion

This study examined public debt at the local government level in Zambia with the aim of evaluating its nature, scale, and composition across 116 local authorities, analysing the associated fiscal and economic risks, and identifying strategic management approaches to enhance debt sustainability and improve local service delivery. The conclusions drawn from the analysis provide a coherent and integrated understanding of subnational debt dynamics within Zambia's decentralised governance framework.

The study concludes that public debt among Zambia's local authorities is predominantly arrears-based rather than driven by formal borrowing. The scale of arrears has expanded steadily across councils, reflecting persistent structural imbalances between expenditure responsibilities and available revenue. The composition of this debt is increasingly concentrated in statutory obligations, utility payments, and penalty-driven liabilities, while wage-related arrears have been relatively contained. This pattern indicates that fiscal stress is being managed through deferred payments rather than sustainable fiscal adjustment, pointing to weaknesses in revenue adequacy, expenditure planning, and commitment control systems. The analysis further establishes that the current structure of local government debt poses significant fiscal and economic risks. Rising statutory penalties and interest charges are eroding already constrained fiscal space, limiting resources available for service delivery and development expenditure. Increasing utility arrears heighten the risk of service disruptions and create contingent liabilities, while arrears to suppliers and contractors impose liquidity constraints on the local private sector, raise procurement costs, and weaken local economic activity. The reliance on arrears as an implicit financing mechanism undermines budget credibility and fiscal transparency, reinforcing a cycle of fiscal fragility at the local government level.

Finally, the study concludes that enhancing debt sustainability and improving service delivery requires a strategic shift from reactive arrears management to proactive and institutionalised financial management. Strengthening commitment controls, improving statutory compliance, and implementing structured arrears clearance strategies are essential to preventing the recurrence of arrears and reducing non-productive debt. In parallel, strengthening own-source revenue mobilisation, safeguarding high-impact service delivery and capital investment, and reinforcing governance, transparency, and accountability mechanisms are critical for restoring fiscal discipline and supporting sustainable local development. Addressing these issues in a coordinated manner will be essential if Zambia's local governments are to strengthen fiscal resilience and effectively fulfil their service delivery mandate under decentralisation.

6.2 Recommendations

Based on the evaluation of the nature, scale, and composition of public debt among Zambia's 116 local authorities, the analysis of the associated fiscal and economic risks, and the need to enhance debt sustainability and service delivery, this study proposes a coherent set of policy and institutional recommendations. These recommendations are structured to address weaknesses in budget discipline, borrowing practices, debt oversight, institutional capacity, and statutory compliance, which collectively underpin the accumulation of local government debt.**6.2.1 Recommendations Arising from the Nature, Scale, and Composition of Local Government Debt**

a) To improve the understanding, accuracy, and transparency of public debt at the local government level, the study recommends strengthening debt identification, classification, and reporting mechanisms. Local authorities should undertake comprehensive reconciliation of all debt stocks, including statutory arrears, utility obligations, supplier arrears, and personnel-related liabilities. This process should be institutionalised through quarterly and annual reconciliations to ensure that debt data accurately reflects the true scale and composition of indebtedness.

b) In addition, the development and acceleration of a Local Government Management Information System (LG-MIS) is recommended to enable real-time recording and monitoring of debt data across all 116 local authorities. A web-based, multi-user platform would enhance transparency, improve coordination among stakeholders, and support evidence-based fiscal decision-making.

c) To support these reforms, annual training programmes should be institutionalised for finance officers in debt management systems. Training should focus on debt compilation, verification, reporting standards, loan pricing, and negotiation skills, and should be spearheaded by the Ministry of Finance, leveraging its national-level public debt management expertise.

a) **6.2.2 Recommendations Addressing Fiscal and Economic Risk of Local Government Debt**To mitigate the fiscal and economic risks arising from local government debt, the study recommends strengthening budget controls and improving budget credibility. Local authorities should prepare realistic and credible annual budgets that fully prioritise statutory obligations and existing expenditure commitments. Inadequate provisioning for statutory payments has been a key driver of arrears accumulation and penalty-driven debt.

b) All personal emoluments should continue to be paid on a gross basis to ensure that third-party obligations such as pension contributions, loan repayments, and PAYE remittances to the Zambia Revenue Authority are automatically secured. This measure reduces statutory non-compliance and limits the accumulation of penalties and interest.

c) Commitment authorisation procedures should also be strengthened to prevent expenditure commitments outside approved budget appropriations. This will require the development and enforcement of comprehensive budget guidelines to guide budget formulation and execution, supported by strengthened internal controls.

d) The study further recommends the establishment of recruitment and staff transfer guidelines to align staffing decisions with the financial capacity and service delivery needs of individual local authorities. Personnel-related debt has historically constituted a significant share of local government liabilities, and fiscally unaligned recruitment practices have exacerbated arrears accumulation.

e) In addition, statutory frameworks that heighten fiscal risks should be reviewed. In particular, the NAPSA Act of 2015 should be reviewed to address excessive penalties and the absence of waiver mechanisms. Introducing structured penalty relief linked to credible repayment plans would facilitate arrears clearance while maintaining incentives for statutory compliance.

a) **6.2.3 Strategic Management Recommendations for Enhancing Debt Sustainability and Service Delivery**Fiscal adjustment should avoid excessive expenditure compression in capital and maintenance spending. Local authorities should prioritize investments with high service delivery and economic returns, supported by medium-term expenditure planning. Short-term debt should not exceed 5% of the most recent audited annual revenues and must be repaid within a year. Long-term debt should be restricted to financing capital expenditure within approved Capital Investment Plans, with a ceiling of 50% of actual annual revenue. Annual debt service obligations should not exceed 30% of average revenues from the previous three fiscal years, and repayment must be financed from Local Authorities' own budgets. Protecting such expenditures is critical to preventing infrastructure deterioration and ensuring sustainable local development.

b) To enhance debt sustainability and improve service delivery, the study recommends establishing clear and enforceable borrowing thresholds and debt limits. Short-term borrowing should be restricted to cash management purposes only and capped at 5 percent of the most recent audited annual revenues, with mandatory repayment within one year. This will reduce rollover risks and prevent the use of short-term debt for structural financing gaps.

c) Improving debt sustainability requires strengthening the revenue base of local authorities. Central Government should support reforms to improve Local Authorities' revenue position, i.e., budget and financial accountability reforms aimed at addressing the weak financial position of the local authorities. Priority should be given to key revenue enhancement measures including exploiting updating valuation rolls for collecting property rates, review of 2018 Rating Act and other pieces of legislation that have revenue implications and other revenue administrative efficiencies such as strengthening the know your taxpayers, expanding digital revenue collection systems and improved taxpayer data base management. These measures are expected to generate sufficient funds to reduce debt and strengthen financial sustainability. More predictable own-source revenues will reduce reliance on arrears as an implicit financing mechanism and support stable service delivery.

d) Long-term borrowing should be limited exclusively to financing capital expenditure aligned with approved Capital Investment Plans. Such borrowing should not exceed 50 percent of actual annual revenues reported in the most recent audited financial statements and must be subject to demonstrated repayment capacity. Borrowing should be prohibited even within this threshold where repayment capacity is not evident.

e) All planned borrowing should be fully disclosed and approved through the annual budget process. In addition, a debt service limit should be enforced such that total annual debt service obligations do not exceed 30 percent of the average annual revenues collected over the preceding three fiscal years. All debt service should be financed from local authority budgets, without reliance on central government support.

f) To limit contingent liabilities and moral hazard, the study recommends that central government should not guarantee local authority borrowing. Furthermore, local authorities should be prohibited from pledging public assets as collateral without written authorisation from the Secretary to the Treasury, in accordance with the Public Finance Management Act No. 1 of 2018.

g) The establishment of formal monitoring mechanisms for debt service is also recommended. These mechanisms should track compliance with debt service limits, repayment schedules, and borrowing conditions to ensure that debt remains within sustainable levels. Effective monitoring will enhance early detection of fiscal stress and support timely corrective action.

h) To support forward-looking fiscal management, periodic debt sustainability analyses (DSAs) tailored to local authorities should be conducted. These analyses should assess the impact of existing debt and proposed borrowing on future repayment capacity and service delivery. The development of an appropriate DSA tool for local governments should precede implementation.

i) Finally, improving the creditworthiness of local authorities is essential for accessing affordable and sustainable financing. This can be achieved by strengthening own-source revenue mobilisation and encouraging engagement with independent credit rating agencies. Credit ratings would enhance transparency, improve investor confidence, and enable local authorities to access financing at more favourable terms.

REFERENCES

1) Kasuba, T. M., & Habbazoka, L. (2025). An analysis of the correlation between external debt and economic growth (GDP) in Zambia. International Journal of Management and Economics, 7(2), 31–38.

2) Mwale, N., & Hapompwe, C. C. (2024). An analysis of contributory factors to low own-source revenue (OSR) in local authorities in Zambia: A case study of Muchinga Province. Journal of Economics, Finance and Management Studies, 7(7), 4231–4243. https://doi.org/10.47191/jefms/v7-i7-40Vértesy, László. (2020). Debt Management Strategies of Local Governments in the EU. Pro Publico Bono - Magyar Közigazgatás. 8. 10.32575/ppb.2020.1.8.Bahl, R., & Bird, R. (2018). Fiscal decentralization and local finance. Edward Elgar Publishing.Faguet, J. P. (2012). Decentralization and popular

democracy: Governance from below in Bolivia. University of Michigan Press.Government of Zambia. (1993). Public Service Reform Programme. Cabinet Office.
3) Government of Zambia. (2023). National Decentralisation Policy. Ministry of Local Government.Ministry of Finance. (2022). Debt Management Strategy. Government of Zambia.
4) Ministry of Local Government. (2021). Local Authority Debt Report. Government of Zambia.Ministry of Local Government. (2022). Verification of Local Authority Debt Stock. Government of Zambia.
5) Smoke, P. (2013). Why theory and practice are different: The gap between decentralization theory and practice. Governance Journal, 26(4), 613–620.
6) Mwale, N., & Hapompwe, C. C. (2024). An analytical desk review of the implementation of fiscal decentralisation in Zambia: Challenges and opportunities. Journal of Economics, Finance and Management Studies, 7(12), 6959–6970. https://doi.org/10.47191/jefms/v7-i12-03
7) Smoke, P. (2015). Rethinking decentralization: Assessing challenges to a popular public sector reform. Public Administration and Development, 35(2), 97–112.
8) Cheng, Y., Jia, S., and Meng, H. (2022). Fiscal policy choices of local governments in China: land finance or local government debt? Int. Rev. Econ. Finance 80 (2022), 294–308. doi:10.1016/j.iref.2022.02.070
9) Chang, J., Yang, T., and Shi, Y. (2022). Finance leases: in the shadow of banks. Rev. Finance 26 (3), 721–749. doi:10.1093/rof/rfab037
10) Barnett, S., and Y. Zhang. 2014. “Fiscal Vulnerabilities and Risks from Local Government Finance in China.” Working Paper No.14/4, International Monetary Fund, Washington.
11) Checherita Westphal, C., and Rother, P. (2012). The impact of high government debt on economic growth and its channels: an empirical investigation for the euro area. Eur. Econ. Rev. 26 (06), 1392–1405. doi:10.1016/j.euroecorev.2012.06.007
12) Auditor General. (2021). Report of the Auditor General on the Audit of Accounts of Local Authorities for the Financial Year Ended 31st December 2021. Office of the Auditor General. Retrieved from https://www.ago.gov.zm/wp-content/uploads/2022/11/Local-Government-Report-2021.pdf
13) Auditor General. (2022). Report of the Auditor General on the Audit of Accounts of Local Authorities for the Financial Year Ended 31st December 2022. Office of the Auditor General. Retrieved from https://www.ago.gov.zm/wp-content/uploads/2023/03/Local-Government-Report-2022.pdf
14) Mwale, N., Hapompwe, C. C., Nshimbi, I. C., & Mlawasi, A. K. (2025). An analytical desk review of the implementation of decentralisation for socio-economic development in selected developing countries in Africa: Exploring the strategies and barriers. Journal of Economics, Finance and Management Studies, 8(7), 4406–4421. https://doi.org/10.47191/jefms/v8-i7-34
15) ZIPAR. (2022). Local Government Debt and Arrears Analysis Report. Zambia Institute for Policy Analysis and Research. Retrieved from https://www.zipar.org.zm/2022/03/17/zipar-launches-the-local-government-debt-and-arrears-analysis-report/
16) The Ministry of Local Government and Rural Development Circular No MLG/71/1/87 of 2019 Approval of the 2019 Local Authorities' Estimates of Revenue, Expenditure and Capital Budgets. https://www.researchgate.net/publication/346572285_Debt_Management_Strategies_of_Local_Governments_in_the_EU https://doi.org/10.1016/j.jbankfin.2009.10.009
17) Ahmad, E., & Brosio, G. (2021). Handbook of fiscal federalism. Edward Elgar Publishing.
18) Auditor General. (2022). Annual audit report on local authorities. Government of Zambia.
19) Bahl, R., & Bird, R. (2018). Fiscal decentralization and local finance. Edward Elgar Publishing.
20) Bird, R., & Smart, M. (2019). Subnational taxation in Africa: Challenges and opportunities. Journal of African Economies, 28(3), 249–270.
21) Carr, J., & Karwan, J. (2020). Debt management and fiscal sustainability in US municipalities. Public Budgeting & Finance, 40(2), 34–56.
22) Chao, X., Li, H., & Wang, Y. (2022). Financial regulation and local government debt risk: A dual perspective. Journal of Public Economics, 210, 104569.
23) De Visser, J. (2019). Municipal finance and debt management in South Africa. South African Journal of Economic and Management Sciences, 22(1), 1–12.
24) Fiva, J. H., & Natvik, G. J. (2015). Public debt and local fiscal sustainability: Evidence from OECD municipalities. Public Finance Review, 43(5), 573–601.

25) He, Y. Q., Li, Z., & Zhang, W. (2025). Threshold effects between government debt and financial crises. Economic Modelling, 112, 105870.
26) Huang, X., Chen, J., & Li, P. (2025). Spatial heterogeneity in local government debt risk. Regional Studies, 59(2), 345–362.
27) IMF. (2021). Government finance statistics yearbook. International Monetary Fund.
28) Lienert, I., & Sarraf, F. (2017). Municipal finance: A global perspective. World Bank.
29) Lundi, R., Okello, D., & Mwangi, J. (2021). Fiscal decentralisation and municipal debt sustainability in East Africa. African Journal of Public Administration, 12(2), 45–63.
30) Ministry of Finance (MoF). (2022). Public debt statistical bulletin. Government of Zambia.
31) Ministry of Local Government and Rural Development (MLGRD). (2021). Local authority financial performance report. Government of Zambia.
32) Mwale, N., & Chanda, L. (2023). Local government debt in Zambia: Trends and fiscal implications. Zambia Journal of Public Policy, 15(1), 55–72.
33) Mwangi, P. (2021). Municipal finance challenges in Kenya: Fiscal sustainability and service delivery. African Journal of Public Finance, 9(1), 12–29.
34) OECD. (2020). Subnational governments in OECD countries: Key trends and statistics. OECD Publishing.
35) Okafor, C., Adebayo, F., & Adewale, S. (2020). Municipal debt and fiscal sustainability in Nigeria. Journal of African Public Finance, 7(1), 23–41.
36) Shah, A., & Shah, S. (2019). The new vision of local governance and the evolving role of subnational governments. World Bank Policy Research Working Paper, 8854.
37) Smoke, P. (2015). Rethinking decentralization: Assessing challenges to a popular public sector reform. Public Administration and Development, 35(2), 97–112.
38) World Bank. (2020). World development indicators. World Bank.
39) ZIPAR. (2021). Zambia economic brief: Local government finance. Zambia Institute for Policy Analysis and Research.
40) ZIPAR. (2022). Local government fiscal sustainability report. Zambia Institute for Policy Analysis and Research.